

Default Category

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AllCustodians: Harrison, Donald

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Author: harrison

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Subject: Re: Strategic rationale

Date Sent: 7/16/2018

Time Sent: 23:18:00

Email From: donald harrison <████████@google.com>

Email To: dave sobota <████████@google.com>

Email CC: kevin sheehan █████@google.com>;sanjay kapoor
████████@google.com>

Email BCC:

EXHIBIT 1484

EXHIBIT 1484-001

Message

From: Donald Harrison [REDACTED]@google.com]
Sent: 7/16/2018 11:18:38 PM
To: Dave Sobota [REDACTED]@google.com
CC: Sanjay Kapoor [REDACTED]@google.com; Kevin Sheehan [REDACTED]@google.com
Subject: Re: Strategic rationale

we are bringing a package offering to BC on Thursday re Epic. Spoke to Jamie and I think we need a couple pages about what investment could look like and someone there to discuss (based on whatever we can glean publicly). We just did a prep call and investment was the only way people could realistically think of to sway them on Epic's approach to Android - because it's easy to imagine us investing billions at some ridiculous valuation (for everyone except for the corpdev folks).

Some rev growth numbers are here:

<https://www.superdataresearch.com/us-digital-games-market/>

On Mon, Jul 16, 2018 at 2:33 PM Dave Sobota [REDACTED]@google.com> wrote:

Got it, thanks. Yes Phil also recognizes that it would be hard to do deals with both unity and epic - one would be disruptive to the other.

On Mon, Jul 16, 2018, 1:17 PM Donald Harrison <[REDACTED]@google.com> wrote:

I don't think we have a strong enough relationship with Tencent to assume they wouldn't use the information (our interest and issues) for their own benefit but I'll talk to Karim about it. We have a strong enough relationship (at the Martin level) to reach out to Tencent directly but there have been disappointments with the relationship (Cloud has been a tough issue) so I'm not sure we would want to share full context with them and that makes them a somewhat trickier partner.

We also need to balance this with the message we send Unity - this are full competitors. An investment in Epic would not be received well by John (by the way - I panicked when I read the first paragraph of your note because I was worried you meant you reached out to John Riccatello which would have been a complete disaster!).

These are good notes - thanks.

On Mon, Jul 16, 2018 at 10:31 AM Dave Sobota [REDACTED]@google.com> wrote:

Update: I just talked to John (I shared only that we are currently in commercial discussions with Epic and wanted to better understand if and how strategic investment could sweeten the pot).

He said

- Tencent has almost 50% ownership but not control of Epic
- Epic has a great relationship with Tencent, but would value a counterweight to Tencent
- Epic is very picky who it partners with -- has distaste for some companies in Silicon Valley (but Epic has never said anything bad about Google)
- Epic is not in need of primary money given the success of Fortnite
- He didn't know valuation other than it will be high

My takeaway is that we should float the idea of investment directly with Epic, coordinated through Jamie to make sure it melds with his discussions. Unless we have very strong relationships with Tencent, we risk tipping our hand to a competitor and it seems that the Tencent path is a less direct way to achieve our objectives anyway.

On Mon, Jul 16, 2018 at 10:03 AM, Dave Sloboda <[REDACTED]@google.com> wrote:
Hi Don, Sanjay and Kevin,

Adding you all to the thread so we can be on the same page.

I just talked to Phil about Epic.

He said Jamie is currently leading commercial discussions with Epic to try to get them to use the Google Play Store for Fortnite. These discussions involve other topics too, like YT and Yeti.

As a potential alternative, Phil is proposing we consider approaching Tencent to either (a) buy Epic shares from Tencent to get more control over Epic (unclear how that helps us without a majority share) or (b) join up with Tencent to buy 100% of Epic (and then of course we do a lot of deep commercial things with Epic).

I proposed talking to Nick Tuosto at Liontree (I was wrong -- he's not Lazard as I mentioned to you Sanjay), who is smart in gaming and was formerly at BAML, to see what we could learn confidentially. Phil says John Salter of Raine is the best in the gaming space and is trustworthy, so I told Phil he could approach John to see what John knows and introduce John to me. (Let me know if that is a problem in your eyes - I thought OK).

I suggested to Phil that the best approach may be to approach Epic directly to see if a Google investment could help with Jamie's negotiations (vs going to Tencent who might view us suspiciously as a competitor), presumably using Jamie as an initial conduit for that conversation.

@Don: Phil said he thought you had a strong relationship with Tencent and that therefore we could approach Tencent with low risk. Do you have thoughts there?

Side note: Epic is doing a secondary to give some liquidity to executives. Phil thinks that since that is a secondary it's not a great opportunity for Google to participate and gain strategic leverage, but I'm not so sure it's so black and white (we might get some strategic benefit from participating in a secondary).

Thanks,

Dave

----- Forwarded message -----

From: Phil Harrison <[REDACTED]@google.com>
Date: Sun, Jul 15, 2018, 10:00 AM
Subject: Strategic rationale
To: Donald Harrison <[REDACTED]@google.com>
Cc: Rick Osterloh <[REDACTED]@google.com>

Don,

Further to our discussion on Friday, I've taken a stab at a high-level strategic rationale for an investment in Epic.

Fortnite is (or can be) the leading business driver for Google across:

YouTube (already 100M+ increase in game watch time MAU)

GCP (to shift 130M+ players from AWS and build an anchor tenant in games)

Yeti (Fortnite + Unreal Engine support for all games)

Ads (similar to but smaller than Ironman)

Android (Play store, security, etc)

TI - partnering with them to design and deploy the future of online multiplayer gaming to optimize our TI Networking stack for extreme performance to drive industry preference away from AWS or Azure, regardless of platform.

I shared this with Rick (copied here) and he's very supportive while also recognising that we're potentially buying at the top of the market.

Hope this is helpful.

Thanks

Phil